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Chiang Releases Statement on Projected Drop in Revenues

SACRAMENTO – State Controller John Chiang today issued the following statement regarding the Department of Finance’s announcement that the State faces an \$11.2 billion gap by the end of the fiscal year:

“The state spending plan was nothing more than a house of cards, built on the wishful premise that California could pay its bills by depleting internal funds and relying on heavy Wall Street borrowing while hoping revenues hold steady despite dismal economic indicators. Under the weight of growing unemployment, record mortgage foreclosures and weakening retail sales, that house of cards is fast collapsing.

“If the Governor’s numbers are valid, then lawmakers face an even greater responsibility to resolve the growing budget deficit in the upcoming special session. Every dollar of the \$11.2 billion deficit that is not fixed now likely will require \$2 of new cuts or taxes next year.

“Today’s news raises the very real risk that the State may face a severe cash shortage by late winter. If the Legislature and Governor fail to respond responsibly and swiftly, it may require returning to Wall Street for a form of emergency borrowing that has only been needed seven times in California’s history.

“The time has come for the Legislature and Governor to make tough decisions. We cannot afford an encore of last summer when critical public services were starved of cash for a record 85 days. We can no longer deny there is a revenue problem when 10 percent of the General Fund may disappear by June.

Once the administration provides detailed information, the Controller will conduct an independent cash flow analysis to validate the reasonableness of the assumptions underlying the Department of Finance’s forecast and determine the impact it has on the State’s ability to meet its payment obligations through the end of the year. The Controller on Friday will release his monthly report disclosing actual cash receipts and disbursements for the month of October and the fiscal year to date.

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